

**LAKEVIEW COMMUNITY SCHOOLS**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED JUNE 30, 2005**

# LAKEVIEW COMMUNITY SCHOOLS

## TABLE OF CONTENTS

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	<u>PAGE</u>
<b>Administrative Personnel</b>	
 <b>Financial Section</b>	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	16
Statement of Fiduciary Net Assets	17
Notes to the Financial Statements	18-29
Combining and Individual Fund Financial Statements and Schedules:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	30-32
Combining Balance Sheet – Nonmajor Governmental Funds	33
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	34
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Athletics Fund	35
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Food Service Fund	36
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Preschool Fund	37
Combining Balance Sheet – Agency Funds	38

**LAKEVIEW COMMUNITY SCHOOLS  
ADMINISTRATIVE PERSONNEL  
YEAR ENDED JUNE 30, 2005**

**SCHOOL BOARD MEMBERS**

Douglas Bucholtz	Secretary
William Drews	Trustee
Jonnie Vanderhoef	Treasurer
Jim Shaw	Trustee
Timothy Reed	President
Daryl Johnson	Trustee
Richard Boomer	Vice President

**SUPERINTENDENT**

J. Mark Parsons

**PRINCIPALS**

Michael J. Travis	High School
Robert Ivan	Middle School
Edward Parish	Elementary School
Kellye Wood	Elementary School

**DIRECTOR OF BUSINESS OPERATIONS**

Dixie M. Pope



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

## INDEPENDENT AUDITORS' REPORT

July 29, 2005

Board of Education  
Lakeview Community Schools  
Lakeview, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **LAKEVIEW COMMUNITY SCHOOLS**, as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lakeview Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

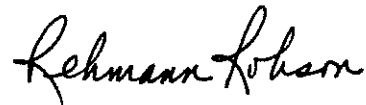
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Lakeview Community Schools as of June 30, 2005, and the respective changes in financial position, where applicable, thereof and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated July 29, 2005 on our consideration of Lakeview Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lakeview Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements and schedules, are presented for purposes of additional analysis and are not a required part of Lakeview Community Schools' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent initial 'L'.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# Lakeview Community Schools

123 Fifth Street  
Lakeview, Michigan 48850

Phone: 989-352-6226  
Fax: 989-352-8245

J. Mark Parsons, Superintendent  
Dixie M. Pope, Director of Business Operations  
WWW.MAISD.Com/LCS

## Management's Discussion and Analysis

As management of Lakeview Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005.

### Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$2,058,792 (*net assets*). Of this amount, \$829,076 (*unrestricted net assets*) may be used to meet the District's ongoing obligations for general district programs.
- The District's total net assets decreased by \$190,169.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,135,570, a decrease of \$317,179 in comparison with the prior year.
- At the end of the current fiscal year, unreserved undesignated fund balance for the general fund was \$1,097,984 or 8.1 percent of total general fund expenditures and transfers out.
- Investments for the future were made by spending \$143,901 on school improvements, vehicles and equipment.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements including management discussion and analysis, budgetary schedules and combining statements for non-major and fiduciary funds.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated leave).

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The activities of the District include instruction, supporting services, community services, food services, athletics and other services. The District has no business-type activities as of and for the year ended June 30, 2005.

The government-wide financial statements can be found on pages 10-11 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District fall within the governmental and fiduciary fund type category.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains eleven individual governmental and two agency funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other ten governmental funds are combined into a single, aggregated presentation. These funds include a capital projects fund and six debt service funds, a food service fund, a preschool fund and an athletic special revenue fund. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The governmental fund financial statements can be found on pages 12-16 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Lakeview Community Schools' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 17 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-29 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 30-38 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$2,058,792 at the close of the most recent fiscal year. The timing of debt service payments and depreciation expense of fixed assets has a significant impact on this balance.



A large portion of the District's net assets (31%) reflect investment in capital assets net of related debt (e.g., land, buildings, vehicles, and equipment, less any related debt used to acquire those assets that is still outstanding). The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### Lakeview Community School's Net Assets

	2003-2004 Governmental Activities	2004-2005 Governmental Activities
Current and other assets	\$ 4,837,818	\$ 4,661,969
Capital assets, net	<u>20,507,104</u>	<u>19,895,673</u>
Total assets	<u>25,344,922</u>	<u>24,557,642</u>
Current liabilities	3,452,340	3,718,697
Long-term liabilities outstanding	<u>19,643,621</u>	<u>18,780,153</u>
Total liabilities	<u>23,095,961</u>	<u>22,498,850</u>
Net assets:		
Invested in capital assets, net of related debt	470,731	644,300
Restricted	645,596	585,416
Unrestricted	<u>1,132,634</u>	<u>829,076</u>
<b>Total net assets</b>	<b><u>\$ 2,248,961</u></b>	<b><u>\$ 2,058,792</u></b>

An additional portion of the District's net assets (28%) represents resources that are subject to other external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (41%) may be used to meet the District's ongoing obligations to its general programs.

At the end of the current fiscal year, the District was able to report positive balances in all three categories of net assets, for the District as a whole, as well as positive fund balances for its separate governmental funds.

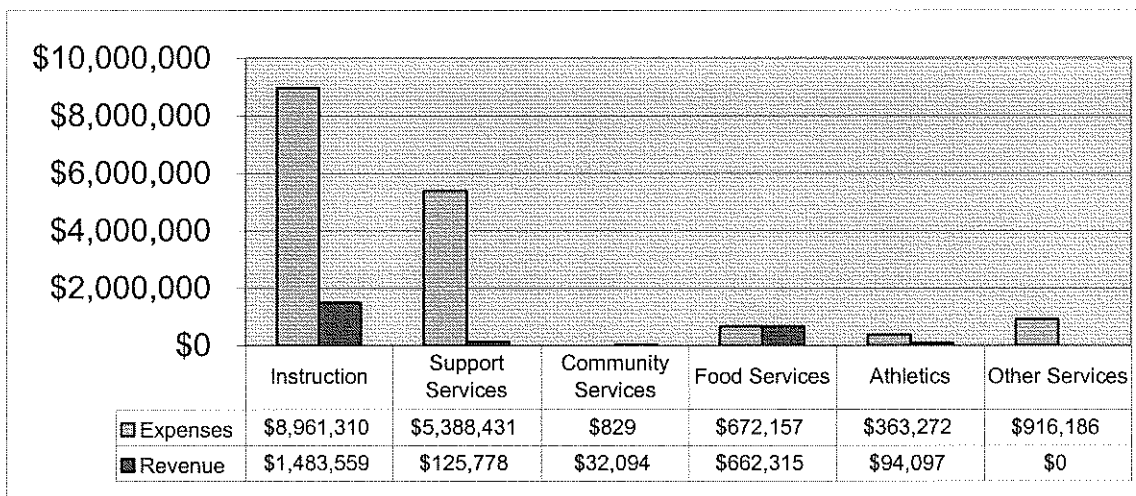
# Lakeview Community School's Changes in Net Assets

	2004 Governmental <u>Activities</u>	2005 Governmental <u>Activities</u>
<b>Program revenue:</b>		
Charges for services	\$ 487,543	\$ 463,292
Operating grants and contributions	1,807,472	1,918,684
Capital grants and contributions	15,867	15,867
<b>General revenue:</b>		
Property taxes - operations	1,138,413	1,377,214
Property taxes – debt service	1,556,054	1,669,639
Grants and contributions not restricted to specific programs	10,910,935	10,620,978
USF Funds	82,253	15,734
Gain (loss) on sale of capital assets	1,702	1,302
Unrestricted investment earnings	<u>15,227</u>	<u>29,306</u>
<b>Total revenue</b>	<b><u>16,015,466</u></b>	<b><u>16,112,016</u></b>
<b>Expenses:</b>		
Instruction	8,435,595	8,961,310
Supporting services	5,311,019	5,388,431
Community services	2,825	829
Food services	596,409	672,157
Athletics	296,972	363,272
Interest on long-term debt	<u>979,063</u>	<u>916,186</u>
<b>Total expenses</b>	<b><u>15,621,883</u></b>	<b><u>16,302,185</u></b>
<b>Increase (decrease) in net assets</b>	<b>393,583</b>	<b>(190,169)</b>
Net assets, beginning of year	<u>1,855,378</u>	<u>2,248,961</u>
<b>Net assets, end of year</b>	<b><u>\$ 2,248,961</u></b>	<b><u>\$ 2,058,792</u></b>

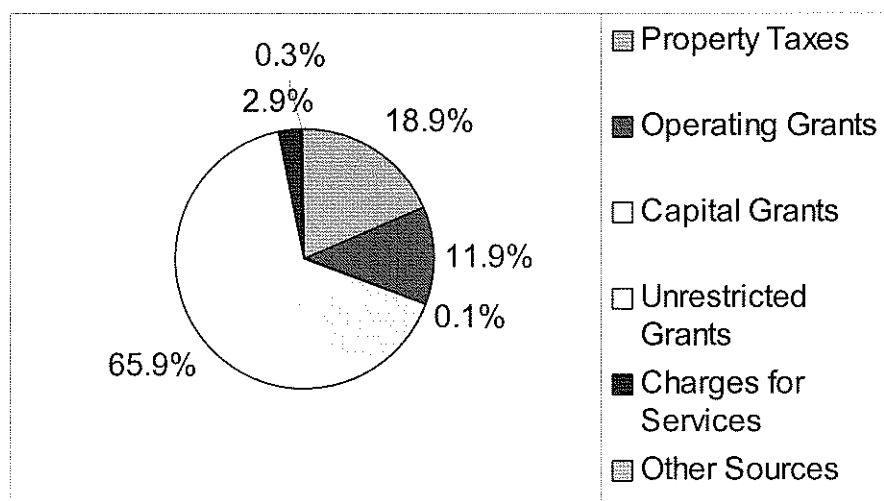
**Governmental activities.** Net assets decreased by \$190,169. Key elements of this decrease are as follows:

- Completion of construction projects.
- Depreciation expense on capital assets.

## Expenses and Program Revenues – Government-wide



## Revenues by Source – Government-wide



## **Financial Analysis of the Government's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$1,097,984, while the total fund balance was \$1,398,159. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved undesignated fund balance and total fund balance represent 8.1 and 10.2 percent respectively of total general fund expenditures and transfers out.

The fund balance of the District's general fund decreased by \$186,432 during the current fiscal year. The largest revenue source in this fund is state revenue which includes primarily state aid. Expenditures consist primarily of costs associated with instruction and related supporting activities.

### **General Fund Budgetary Highlights**

Differences between the original and final amended budgets were relatively minor and related primarily to changes to the student foundation allowance. Variations in expenses were relatively minor.

### **Capital Asset and Debt Administration**

- **Capital assets** – The District's investment in capital assets for its governmental activities as of June 30, 2005 amounted to \$19,895,673 (net of accumulated depreciation). This investment in capital assets included land, buildings, vehicles and equipment.

Capital assets at fiscal year included the following:

**Lakeview Community School's Capital Assets**  
(net of depreciation)  
June 30, 2005

Land	\$ 393,160
Buildings and improvements	18,926,089
Machinery and equipment	373,694
Vehicles	<u>202,730</u>
<b>Total</b>	<b><u>\$19,895,673</u></b>

Additional information on the District's capital assets can be found in Note 5 on pages 25 and 26 of this report.

**Long-term debt.** At the end of the current fiscal year, the District had total long-term debt outstanding of \$19,799,046.

The District's total debt decreased by \$738,033 during the current fiscal year, with no new debt issuances.

Additional information on the District's long-term debt can be found in Note 7 on pages 26-28 of this report.

**Factors Bearing on the District's Future**

The following factors were considered in preparing the District's budget for the 2005-2006 fiscal year:

- A declining pupil count was used because of the County's economic and job loss situation.
- A state foundation grant of \$6,875 per student based on state revenue projections.
- Federal revenue and expenditures projections were done on a grant-by-grant basis.
- Wage, retirement and insurance costs were budgeted according to negotiated contracts.

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Director of Business Operations  
Lakeview Community Schools  
123 Fifth Street  
Lakeview, MI 48850  
(989) 352-6226  
[dpope@lakeviewschools.net](mailto:dpope@lakeviewschools.net)

## **BASIC FINANCIAL STATEMENTS**

# LAKEVIEW COMMUNITY SCHOOLS

## Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 1,974,575
Investments	303,146
Receivables:	
Accounts	49,289
Due from other governmental units	2,288,599
Inventories	46,360
Total current assets	<u>4,661,969</u>
Noncurrent assets:	
Land	393,160
Capital assets, depreciable	31,220,633
Less accumulated depreciation	(11,718,120)
Total noncurrent assets	<u>19,895,673</u>
Total assets	<u>24,557,642</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	49,284
Accrued expenses	1,036,681
Unearned revenue	13,839
Notes payable	1,600,000
Current portion of long-term debt	892,680
Current portion of compensated absences/early retirement	126,213
Total current liabilities	<u>3,718,697</u>
Noncurrent liabilities:	
Long-term compensated absences/early retirement	421,460
Non-current portion of long-term debt	18,358,693
Total noncurrent liabilities	<u>18,780,153</u>
Total liabilities	<u>22,498,850</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	644,300
Restricted for debt service	585,416
Unrestricted	829,076
Total net assets	<u>\$ 2,058,792</u>

The accompanying notes are an integral part of these financial statements.

# LAKEVIEW COMMUNITY SCHOOLS

## Statement of Activities For the Year Ended June 30, 2005

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 8,961,310	\$ 40,297	\$ 1,443,262	\$ -	\$ (7,477,751)
Supporting services	5,388,431	48,573	61,338	15,867	(5,262,653)
Community services	829	-	32,094	-	31,265
Food services	672,157	280,325	381,990	-	(9,842)
Athletics	363,272	94,097	-	-	(269,175)
Interest on long-term debt	916,186	-	-	-	(916,186)
Total governmental activities	<u>\$ 16,302,185</u>	<u>\$ 463,292</u>	<u>\$ 1,918,684</u>	<u>\$ 15,867</u>	<u>(13,904,342)</u>
General revenues:					
Property taxes - operations					1,377,214
Property taxes - debt service					1,669,639
Grants and contributions not restricted to specific programs					10,620,978
Universal service funds					15,734
Gain (loss) on disposal of capital assets					1,302
Unrestricted investment earnings					<u>29,306</u>
Total general revenues					<u>13,714,173</u>
Change in net assets					(190,169)
Net assets, beginning of year					<u>2,248,961</u>
Net assets, end of year					<u>\$ 2,058,792</u>

The accompanying notes are an integral part of these financial statements.



# LAKEVIEW COMMUNITY SCHOOLS

## Balance Sheet Governmental Funds June 30, 2005

	<u>General</u>	<u>Non-Major Funds</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 1,307,604	\$ 666,971	\$ 1,974,575
Investments	303,146	-	303,146
Due from other governmental units	2,250,226	38,373	2,288,599
Accounts receivable	14,289	35,000	49,289
Inventory	33,586	12,774	46,360
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b><u>TOTAL ASSETS</u></b>	<u>\$ 3,908,851</u>	<u>\$ 753,118</u>	<u>\$ 4,661,969</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 46,625	\$ 2,659	\$ 49,284
Accrued expenses	850,228	13,048	863,276
Deferred revenue	13,839	-	13,839
Notes payable	1,600,000	-	1,600,000
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>2,510,692</u>	<u>15,707</u>	<u>2,526,399</u>
<b>Fund balance</b>			
Reserved:			
Inventory	33,586	12,774	46,360
Debt service	-	585,416	585,416
Unreserved			
Designated for early retirement	266,589	13,665	280,254
Undesignated special revenue funds	-	125,556	125,556
Undesignated general fund	1,097,984	-	1,097,984
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balance	<u>1,398,159</u>	<u>737,411</u>	<u>2,135,570</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b><u>TOTAL LIABILITIES AND FUND BALANCE</u></b>	<u>\$ 3,908,851</u>	<u>\$ 753,118</u>	<u>\$ 4,661,969</u>

The accompanying notes are an integral part of these financial statements.

**LAKEVIEW COMMUNITY SCHOOLS**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2005**

Fund balances - total governmental funds	\$ 2,135,570
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	31,613,793
----------------------	------------

Deduct - accumulated depreciation	(11,718,120)
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(19,251,373)
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Deduct - accrued interest on bonds payable	(173,405)
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Deduct - compensated absences/early retirement	<u>(547,673)</u>
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Net assets of governmental activities	<u><u>\$ 2,058,792</u></u>
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The accompanying notes are an integral part of these financial statements.

# LAKEVIEW COMMUNITY SCHOOLS

## Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2005

	<u>General</u>	<u>Non- Major Funds</u>	<u>Total</u>
<b>Revenues</b>			
Local sources	\$ 1,680,935	\$ 2,062,884	\$ 3,743,819
State sources	11,201,390	245,003	11,446,393
Federal sources	579,875	340,627	920,502
	<u>13,462,200</u>	<u>2,648,514</u>	<u>16,110,714</u>
<b>Expenditures</b>			
Current			
Instruction	8,179,348	214,775	8,394,123
Supporting services	5,254,162	-	5,254,162
Community services	1,238	-	1,238
School administration	-	13,923	13,923
Food services	-	676,020	676,020
Athletics	-	292,835	292,835
Capital outlay	-	69,907	69,907
Debt service			
Principal	20,000	765,000	785,000
Interest	29,729	912,258	941,987
	<u>13,484,477</u>	<u>2,944,718</u>	<u>16,429,195</u>
Revenue (under) expenditures	<u>(22,277)</u>	<u>(296,204)</u>	<u>(318,481)</u>
<b>Other financing sources (uses)</b>			
Transfers in	-	165,457	165,457
Gain on sale of capital assets	1,302	-	1,302
Transfers out	(165,457)	-	(165,457)
	<u>(164,155)</u>	<u>165,457</u>	<u>1,302</u>
Total other financing sources (uses)	<u>(164,155)</u>	<u>165,457</u>	<u>1,302</u>
Net changes in fund balances	(186,432)	(130,747)	(317,179)
Fund balances, beginning of year	<u>1,584,591</u>	<u>868,158</u>	<u>2,452,749</u>
<b>Fund balances, end of year</b>	<u>\$ 1,398,159</u>	<u>\$ 737,411</u>	<u>\$ 2,135,570</u>

The accompanying notes are an integral part of these financial statements.

**LAKEVIEW COMMUNITY SCHOOLS**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2005**

Net change in fund balances - total governmental funds \$ (317,179)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	143,901
Deduct - depreciation expense	(734,043)
Deduct - net disposals of capital assetss	(21,289)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but a reduction in long-term debt on the statement of net assets.

Add - principal payments on long-term debt	785,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds	408
Add - decrease in the long-term portion of accrual for retirement incentive	5,019
Deduct - increase in the accrual for compensated absences	(51,986)

Change in net assets of governmental activities	\$ (190,169)
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The accompanying notes are an integral part of these financial statements.

**LAKEVIEW COMMUNITY SCHOOLS**  
**Statement of Revenue, Expenditures**  
**and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2005**

	<b>Budget</b>			<b>Variance - Positive (Negative)</b>
	<b>Original</b>	<b>Amended</b>	<b>Actual</b>	
<b>Revenue</b>				
Local sources	\$ 1,430,833	\$ 1,696,285	\$ 1,680,935	\$ (15,350)
State sources	11,133,570	11,265,644	11,201,390	(64,254)
Federal sources	546,466	597,556	579,875	(17,681)
Total revenue	13,110,869	13,559,485	13,462,200	(97,285)
<b>Expenditures</b>				
Current:				
Instruction	8,231,234	8,217,794	8,179,348	38,446
Supporting services	5,067,841	5,342,174	5,254,162	88,012
Community services	2,590	3,829	1,238	2,591
Debt service				
Principal	48,000	20,000	20,000	-
Interest	32,000	30,394	29,729	665
Total expenditures	13,381,665	13,614,191	13,484,477	129,714
Revenue over (under) expenditures	(270,796)	(54,706)	(22,277)	32,429
<b>Other financing sources (uses)</b>				
Gain on sale of capital assets	5,000	1,302	1,302	-
Transfers out	(165,457)	(165,457)	(165,457)	-
Total other financing sources (uses)	(160,457)	(164,155)	(164,155)	-
Net changes in fund balance	(431,253)	(218,861)	(186,432)	32,429
Fund balance, beginning of year	1,584,591	1,584,591	1,584,591	-
<b>Fund balance, end of year</b>	<b>\$ 1,153,338</b>	<b>\$ 1,365,730</b>	<b>\$ 1,398,159</b>	<b>\$ 32,429</b>

The accompanying notes are an integral part of these financial statements.

**LAKEVIEW COMMUNITY SCHOOLS**  
**Statement of Fiduciary Net Assets**  
**Agency Funds**  
**June 30, 2005**

**Assets**

Cash and cash equivalents	<u>\$ 245,898</u>
<b>Total Assets</b>	<b><u><u>\$ 245,898</u></u></b>

**Liabilities**

Due to student groups	\$ 97,036
Withholdings payable	<u>148,862</u>
<b>Total Liabilities</b>	<b><u><u>\$ 245,898</u></u></b>

The accompanying notes are an integral part of these financial statements.

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of the Lakeview Community Schools (the "School" or "District") consistently applied in the preparation of the accompanying financial statements follows.

#### ***The Reporting Entity***

As required by generally accepted accounting principles, these financial statements present the reporting entity of the Lakeview Community Schools. The criteria identified in GASB Statements 14 and 39, including financial accountability, have been utilized when identifying the School reporting entity which includes no component units.

#### ***Government-wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2005.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

#### ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency fund follows the accrual basis of accounting, but does not have a measurement focus.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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Property taxes, expenditure driven grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the district.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the government reports the following fund types:

The *special revenue funds* account for assets which are restricted for specific purposes.

The *debt service funds* account for the accumulation of resources which are restricted for the payment of principal and interest on bonds.

The *capital projects fund* accounts for the accumulation and disbursement of funds for construction projects.

The *fiduciary funds* account for resources held on the behalf of other individuals and governments.

Private – sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The effect of interfund activity has been eliminated from the government-wide financial statements.

### **Budgets and Budgetary Accounting**

The School follows these procedures in establishing the budgetary data as reflected in the financial statements.

Budgets are adopted for general and special revenue funds as required by state law and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The School considers the debt service payment schedule to be an adequate budgetary control. The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.



# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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4. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
5. Adoption and amendments of all budgets used by the School are governed by Public Act 621, which was followed for the year ended June 30, 2005. Expenditures may not exceed appropriations at the function level. The appropriations resolutions are based on the projected expenditures budget of the department heads of the School. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the School Board.

### **Encumbrances**

The School does not formally record encumbrances in the accounting records during the year as a normal practice. Appropriations lapse at year-end and amounts are reappropriated for expenditures to be incurred in the next fiscal year.

### **Property Taxes**

Property taxes are recognized as revenue in the General and Debt Service funds on a levy year basis. The 2004 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within sixty days after year end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Property taxes are levied December 1 on the assessed valuation of property located in the School as of the preceding December 31, the lien date. Assessed values are established annually by the various governmental units within the School and are equalized by the State of Michigan.

### **Cash and Cash Equivalents**

The School considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

### **Investments**

The School investments consist of mutual funds and certificates of deposit with local and regional financial institutions. Investments are stated at fair value.

### **Statutory Authority**

State statutes authorize the District to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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### **Receivables**

The School follows the practice of recording as receivables revenues that have been earned but not yet received.

### **Inventories**

Inventories consist of office and other supplies. Inventories are stated at cost (first-in, first-out).

### **Capital Assets**

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<b><u>Assets</u></b>	<b><u>Years</u></b>
Buildings and improvements	20-45
Machinery and equipment	5-20
Vehicles	8

### **Insurance Refunds**

The School receives surplus distributions from SET/SEG Property/Casualty Pool for insurance premiums paid into the Pool in prior years. The receipt of premium refunds for prior years are recorded as revenue from Local Sources. If the School were to receive premium refunds for their current fiscal year, these refunds would offset the premium expense in the year received.

### **Salaries Payable and Accrued Employee Benefits**

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the School who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The School pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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### **Vested Termination Benefits**

Most employees of the School are compensated for leaves of absences chargeable to sick days. Each school year, the covered employees are credited with a number of sick days and any unused portion of such allowances can accumulate. Upon retirement, those employees who meet certain age and years of service requirements will be paid for a portion of sick days accumulated to a maximum number of days and at a rate determined by their job category.

The liability for the sick leave has been computed using the vesting method in accordance with Governmental Accounting Standards Board Statement No. 16. This liability is shown on the statement of net assets.

### **Reserves and Designations of Fund Balance/Restricted Net Assets**

Reservations of fund balance are established to identify (1) third party claims against resources of the entity that have not materialized as liabilities at the balance sheet date, or (2) the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, or (3) the existence of assets that are legally restricted to a future use.

Designations of fund balance are established to identify amounts set aside by the Board of Education for future expenditures.

Restricted net assets represent assets which are legally restricted by outside parties or enabling legislation.

### **Durant Related Issues**

Under Public Act 142 of 1997, enacted in November 1997 as part of the *Durant* Resolution Package, school districts and intermediate school districts were offered settlement amounts to settle, compromise, and resolve, in their entirety, any potential claims they may have asserted for violations of section 29, Article IX, of the constitution through September 30, 1997, which were similar to the claims asserted by the plaintiffs in the *Durant v. State of Michigan* case. To be eligible to receive its offer of settlement amount, the non-plaintiff district needed to adopt and submit to the State Treasurer a waiver resolution, in the form set forth in Public Act 142 of 1997, waiving any potential claims through September 30, 1997.

Settlement amounts were based on the formula used to determine amounts owed to *Durant* plaintiffs. Half the settlement amount was to be received in ten annual payments; *the other half was received in a lump sum by participating in a special bonding program offered through the Michigan Municipal Bond Authority (MMBA)* or in fifteen annual payments. Lakeview Community Schools elected to participate in the special bonding program.

Districts electing to bond under the Durant settlement received a lump sum amount (bond proceeds) on November 24, 1998. This created a liability which will be reduced each year with an annual state appropriation made for debt service on the bonds. The annual State of Michigan appropriation is the only revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate the funds, the district is under no obligation for payment. Additionally, the bond documentation states specifically that the Bonds shall not be in any way a debt or liability of the State of Michigan. This liability has been booked on the statement of net assets. Annual appropriations from the State are recorded in the Durant Debt Service Fund along with the payment of the interest and principal of the bonds.

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

The original bond proceeds were recorded in the Durant Construction Fund and expended for purposes specified in Section 1351a of the Revised School Code.

The remaining 50% of the settlement which is being received over ten years, beginning April 1999, is recorded in the General Fund as Unrestricted State School Aid. Use of these funds is restricted to specified purposes.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Interfund Transactions

During the course of normal operations, the School has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the School.

## 2. STATE OF MICHIGAN SCHOOL AID

The School reports State of Michigan school aid in the fiscal year in which the School is entitled to the revenue as provided by State of Michigan School aid appropriation acts. State funding provided 83% of general fund revenue to the District during the 2005 fiscal year.

## 3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2005 the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund			
Middle School	\$1,424,032	\$1,427,417	\$3,385
High School	1,894,711	1,904,455	8,744
Special Education	1,300,523	1,303,016	2,493
Vocational Education	149,381	149,535	154
Guidance Services	348,900	351,265	2,365
Social Work Services	152,754	153,027	273
Pupil Transportation	811,720	818,567	6,847
Food Service Fund			
Supporting Services	666,706	676,020	9,314
Athletics Fund			
Supporting Services	290,245	292,835	2,590

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

### 4. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<b>Governmental Activities</b>	<b>Fiduciary Activities</b>	<b>Total</b>
Cash and cash equivalents	\$1,974,575	\$245,898	\$2,220,473
Investments	303,146	-	303,146
<b>Total cash and cash equivalents and investments</b>	<b>\$2,277,721</b>	<b>\$245,898</b>	<b>\$2,523,619</b>

These deposits are in three (3) financial institutions located in Michigan. State policy limits the School's investing options to financial institutions located in Michigan. All accounts are in the name of the School and a specific fund or common account. They are recorded in School records at fair value.

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following deposits and investments:

<b><u>Investment</u></b>	<b><u>Maturity</u></b>	<b><u>Fair Value</u></b>	<b><u>Rating</u></b>
Mutual Funds			
MILAF Plus – Cash Management Series	N/A	\$ 1,395	AAAm
MILAF Plus – Max Series	N/A	51,751	AAAm

The above investments do not include certificates of deposit which are classified as investment for financial statement purposes as their original maturity date is greater than three months.

#### ***Investment and deposit risk***

***Interest Rate Risk.*** State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment is identified above for investments held at year end.

***Credit Risk.*** State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of District's specific financial institutions, qualified mutual funds qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment is identified above for investments held at year end.

***Custodial Credit Risk – Deposits.*** Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the District's investment policy. As of year end, \$2,255,008 of the District's bank balance of \$2,555,008 was exposed to custodial credit risk because it was uninsured and uncollateralized.

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the District's investment policy. Of the above mutual fund investments the District's custodial credit risk exposure can not be determined because the mutual funds do not consist of specifically identifiable securities.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the District's investments are in mutual funds and certificates of deposit. All investments held at year end are reported above.

### 5. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2005 was as follows:

	<b>Balance July 1, 2004</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Balance June 30, 2005</b>
<b>Governmental activities</b>				
Nondepreciable capital assets:				
Land	\$ 393,160	\$ -	\$ -	\$ 393,160
Depreciable capital assets:				
Buildings and improvements	28,347,256	42,528	-	28,389,784
Machinery and equipment	1,362,722	45,485	(21,289)	1,386,918
Vehicles	1,388,043	55,888	-	1,443,931
Total depreciable capital assets	31,098,021	143,901	(21,289)	31,220,633
Accumulated depreciation:				
Buildings and improvements	(8,931,352)	(532,343)	-	(9,463,695)
Machinery and equipment	(925,438)	(87,786)	-	(1,013,224)
Vehicles	(1,127,287)	(113,914)	-	(1,241,201)
Total accumulated depreciation	(10,984,077)	(734,043)	-	(11,718,120)
Total capital assets being depreciated, net	20,113,944	(590,142)	(21,289)	19,502,513
<b>Governmental activities capital assets, net</b>	<b>\$ 20,507,104</b>	<b>\$ (590,142)</b>	<b>\$(21,289)</b>	<b>\$ 19,895,673</b>

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

For governmental activities, depreciation expense was charged to functions as follows:

Instruction	\$ 529,703
Supporting services	134,331
Athletics	<u>70,009</u>
<b>Governmental activities depreciation expense</b>	<b><u>\$ 734,043</u></b>

### 6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flow for operations.

Transfers primarily reflect subsidies allocated from the General Fund.

	<u>In</u>	<u>Out</u>
<b>Interfund Transfers</b>		
General Fund	\$ -	\$165,457
Nonmajor Funds:		
Athletics special revenue	<u>165,457</u>	<u>-</u>
<b>Total</b>	<b><u>\$165,457</u></b>	<b><u>\$165,457</u></b>

### 7. LONG-TERM DEBT

The following is a summary of debt transactions of the School for the year ended June 30, 2005:

	Short-term Debt				
	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	
School bond/notes maturing (8/19/05) with an interest rate of 1.57% (operating cash flow)	\$1,630,000	\$1,600,000	\$(1,630,000)	\$1,600,000	
	Long-term Debt				
	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Due Within One Year
1996 School Building and Site Bonds due in amounts ranging from \$125,000 through \$355,000 plus interest at 4.30 - 5.60% through 2007	\$1,010,000	\$ -	\$ (300,000)	\$ 710,000	\$355,000
1998 Refunding Bonds due in amounts ranging from \$0 through \$525,000 plus interest at 3.70 - 4.65% through 2022 (unlimited tax, general obligation)	6,310,000	-	(20,000)	6,290,000	-

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

	Long-term Debt				
	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Due Within One Year
2001 Refunding Bonds due in amounts ranging from \$235,000 through \$385,000 plus interest at 4.12 - 4.25% through 2013	\$2,680,000	\$ -	\$(240,000)	\$2,440,000	\$240,000
2001 School Building and Site Bonds due in amounts ranging from \$70,000 through \$300,000 plus interest at 4.00 - 4.75% through 2022	4,825,000	-	(180,000)	4,645,000	245,000
1999 Refunding Bonds due in amounts ranging from \$20,000 through \$415,000 plus interest at 3.10 - 4.88% through 2022 (unlimited tax, general obligation)	5,070,000	-	(25,000)	5,045,000	25,000
1998 School Improvement Bonds (Durant Settlement) due in amounts ranging from \$6,996 through \$16,264 plus interest at 4.76% through 2013	101,373	-	-	101,373	7,680
2000 Bus Loan due in amounts ranging from \$5,000 through \$20,000 plus interest at 5.00 - 8.00% through 2006	40,000	-	(20,000)	20,000	20,000
Early retirement incentive	285,273	86,683	(91,702)	280,254	87,357
Compensated absences	215,433	51,986	-	267,419	38,856
<b>Total Long-term Debt</b>	<b>\$ 20,537,079</b>	<b>\$ 138,669</b>	<b>\$(876,702)</b>	<b>\$19,799,046</b>	<b>\$1,018,893</b>

Following is a summary of future bond and loan principal maturities and interest requirements:

	Principal	Interest
2006	\$ 892,680	\$ 877,016
2007	918,044	831,797
2008	958,429	785,581
2009	988,831	745,584
2010	1,039,251	704,231
2011 - 2015	5,819,138	2,825,910
2016 - 2020	6,155,000	1,453,350
2021 - 2022	2,480,000	176,680
<b>Total</b>	<b>\$19,251,373</b>	<b>\$8,400,149</b>

Compensated absences and the early retirement incentives are expected to be liquidated by the general and food service funds.



# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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In prior years, Lakeview Community Schools advance refunded certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The advance refunding resulted in a defeasance of the bonds. As a result, the trust account assets and the liability for the defeased bonds are not included in the Lakeview Community Schools financial statements. At June 30, 2005, \$10,915,000 of bonds outstanding are considered defeased.

### **8. PUBLIC ENTITY RISK (INSURANCE) POOL – SELF-INSURANCE PLAN**

Lakeview Community Schools participates in a public entity risk (insurance) pool with other school districts in the SET-SEG Property/Casualty Pool, Inc. (a nonprofit corporation). This is a self-insurance fund which provides members with loss protection for property and casualty damages. The Pool was created on May 23, 1985 and organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. There have been no significant reductions in coverage and settlements have not exceeded insurance coverage during the past 3 years.

The School District made a contribution of \$80,841 to the Pool for the 2005 fiscal year. A member's contribution to the Pool in excess of its share of claim losses, expenses, and other costs may be refunded as determined by the Board of Directors. Lakeview Community Schools received no premium refunds for the fiscal year ended June 30, 2005.

The Pool does not maintain separate funds for members and consequently the School District's share of the total assets and total equity is unknown. Audited financial statements of the fund are available.

#### **Risk Management**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2005, the School carried commercial insurance and participated in a public entity risk pool. The School has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

### **9. RETIREMENT PLAN**

#### **Plan Description**

The School contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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### **Funding Policy**

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The School is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rate from July to September was 12.99% and was 14.87% from October through June of covered payroll. The contribution requirements of plan members and the School are established by Michigan State statute and may be amended only by action of the State Legislature. The School's contributions to MPSERS for the years ended June 30, 2005, 2004 and 2003 were \$1,065,964, \$1,077,973 and \$1,191,547, respectively, equal to the required contributions for each year.

### **Other Post-Employment Benefits**

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1998 with the vested deferred benefits, are eligible for partially State of Michigan paid health benefit coverage (no payment if less than 21 years of service).

## **10. CONTINGENCIES**

### **Federal Grant Programs**

The School participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the School expects such amounts, if any, not to be material.

\* \* \* \* \*

**COMBINING AND INDIVIDUAL FUND FINANCIAL  
STATEMENTS AND SCHEDULES**

## GENERAL FUND

**LAKEVIEW COMMUNITY SCHOOLS**  
**General Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2005**

	<b>Budget</b>			<b>Variance - Positive (Negative)</b>
	<b>Original</b>	<b>Amended</b>	<b>Actual</b>	
<b>Revenue</b>				
Local sources:				
Property taxes	\$ 1,241,188	\$ 1,410,040	\$ 1,377,214	\$ (32,826)
Tuition	-	2,000	602	(1,398)
Earnings on investments	15,000	20,000	26,706	6,706
Payments received from other governmental units				
Special Education Medicaid - MAISD	30,000	47,000	50,073	3,073
Other - MAISD	40,000	101,653	101,653	-
Transportation	-	17,000	18,099	1,099
Special education tuition	60,000	24,235	22,627	(1,608)
USF funding	15,000	5,356	15,734	10,378
Miscellaneous	29,645	69,001	68,227	(774)
<b>Total local sources</b>	<b>1,430,833</b>	<b>1,696,285</b>	<b>1,680,935</b>	<b>(15,350)</b>
State sources:				
State Aid - unrestricted	10,341,038	10,445,227	10,443,086	(2,141)
School lunch	21,756	-	-	-
At risk	366,721	408,899	348,120	(60,779)
Gifted program	-	252	252	-
Special education	402,721	407,680	407,680	-
Vocational education	1,334	1,334	-	(1,334)
<b>Total state aid</b>	<b>11,133,570</b>	<b>11,263,392</b>	<b>11,199,138</b>	<b>(64,254)</b>
State general fund - restricted				
Driver education	-	2,252	2,252	-
<b>Total state general</b>	<b>-</b>	<b>2,252</b>	<b>2,252</b>	<b>-</b>
<b>Total state sources</b>	<b>11,133,570</b>	<b>11,265,644</b>	<b>11,201,390</b>	<b>(64,254)</b>
Federal sources:				
Federal aid received through the state -				
E.C.I.A. Title I - Regular	404,517	366,307	359,084	(7,223)
E.C.I.A. Title I - Carryover	-	85,157	85,158	1
Eisenhower grant	119,203	119,855	109,396	(10,459)
Other	16,354	16,888	16,888	-
Federal aid received through intermediate school districts	6,392	9,349	9,349	-
<b>Total revenue from federal sources</b>	<b>546,466</b>	<b>597,556</b>	<b>579,875</b>	<b>(17,681)</b>
<b>Total revenue</b>	<b>13,110,869</b>	<b>13,559,485</b>	<b>13,462,200</b>	<b>(97,285)</b>

(Continued)

**LAKEVIEW COMMUNITY SCHOOLS**  
**General Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - Continued**  
**For the Year Ended June 30, 2005**

	Budget		Actual	Variance - Positive (Negative)
	Original	Amended		
<b>Expenditures</b>				
Instructional:				
Basic programs				
Elementary	\$ 2,772,647	\$ 2,759,335	\$ 2,743,436	\$ 15,899
Middle School	1,517,526	1,424,032	1,427,417	(3,385)
High School	1,855,418	1,895,711	1,904,455	(8,744)
Total basic programs	6,145,591	6,079,078	6,075,308	3,770
Added needs				
Special Education	1,310,410	1,300,523	1,303,016	(2,493)
Compensatory Education	597,339	687,812	651,385	36,427
Vocational Education	177,894	149,381	149,535	(154)
Enrichment	-	1,000	104	896
Total added needs	2,085,643	2,138,716	2,104,040	34,676
<b>Total Instructional</b>	<b>8,231,234</b>	<b>8,217,794</b>	<b>8,179,348</b>	<b>38,446</b>
Supporting services				
Pupil services				
Guidance services	336,219	348,900	351,265	(2,365)
Health services	74,518	70,033	68,675	1,358
Speech services	130,453	140,988	140,411	577
Social work services	151,284	152,754	153,027	(273)
Total Pupil Services	692,474	712,675	713,378	(703)
Instructional staff				
Improvement of instruction	131,986	151,148	142,948	8,200
Library	156,090	176,741	174,161	2,580
Total instructional staff	288,076	327,889	317,109	10,780
General administration				
Board of Education	62,000	93,926	90,309	3,617
Executive administration	216,441	254,726	246,659	8,067
Fiscal services	174,081	175,070	173,858	1,212
Total general administration	452,522	523,722	510,826	12,896
School administration				
Elementary and Secondary Administration	1,020,392	1,046,604	1,024,517	22,087
Operation and maintenance	1,400,511	1,358,626	1,318,064	40,562
Pupil transportation	768,894	811,720	818,567	(6,847)
Support staff training	20,703	35,354	32,255	3,099
Information services	134,632	181,862	181,216	646
Other services	153,637	159,845	156,656	3,189
Payments to other schools	136,000	183,877	181,574	2,303
<b>Total supporting services</b>	<b>5,067,841</b>	<b>5,342,174</b>	<b>5,254,162</b>	<b>88,012</b>
Community services				
Community services	2,590	3,420	829	2,591
Homeless services	-	409	409	-
<b>Total community services</b>	<b>2,590</b>	<b>3,829</b>	<b>1,238</b>	<b>2,591</b>

(Continued)

LAKEVIEW COMMUNITY SCHOOLS  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual - Continued  
For the Year Ended June 30, 2005

	Budget		Actual	Variance - Positive (Negative)
	Original	Amended		
Debt service				
Principal	\$ 48,000	\$ 20,000	\$ 20,000	\$ -
Interest	32,000	30,394	29,729	665
Total debt service	80,000	50,394	49,729	665
Total expenditures	13,381,665	13,614,191	13,484,477	129,714
Revenue over (under) expenditures	(270,796)	(54,706)	(22,277)	32,429
Other financing sources (uses)				
Transfers out	(165,457)	(165,457)	(165,457)	-
Gain on sale of capital assets	5,000	1,302	1,302	-
Total other financing sources (uses)	(160,457)	(164,155)	(164,155)	-
Net changes in fund balance	(431,253)	(218,861)	(186,432)	32,429
Fund balance, beginning of year	1,584,591	1,584,591	1,584,591	-
Fund balance, end of year	\$ 1,153,338	\$ 1,365,730	\$ 1,398,159	\$ 32,429

(Concluded)

## **NONMAJOR GOVERNMENTAL FUNDS**



# LAKEVIEW COMMUNITY SCHOOLS

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2005

	<u>Special Revenue</u>		
	<u>Athletics</u>	<u>Food Service</u>	<u>Preschool</u>
<b><u>ASSETS</u></b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 1,698	\$ 34,821	\$ 45,036
Due from other governmental units	-	4,158	34,215
Accounts receivable	-	35,000	-
Inventory	-	12,774	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b><u>TOTAL ASSETS</u></b>	<u>\$ 1,698</u>	<u>\$ 86,753</u>	<u>\$ 79,251</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 465	\$ 2,174	\$ 20
Accrued expenses	643	-	12,405
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>1,108</u>	<u>2,174</u>	<u>12,425</u>
 <b>Fund equity</b>			
<b>Fund balances</b>			
Reserved:			
Debt retirement	-	-	-
Inventory	-	12,774	-
Unreserved:			
Designated for early retirement	-	13,665	-
Unreserved, undesignated	590	58,140	66,826
	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>590</u>	<u>84,579</u>	<u>66,826</u>
	<u>          </u>	<u>          </u>	<u>          </u>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<u>\$ 1,698</u>	<u>\$ 86,753</u>	<u>\$ 79,251</u>

Debt Service Funds							
1996 Debt	1998 Debt	1999 Debt	Durant Debt	2001 Refinancing	2001 Voting	Capital Projects	Total
\$ 43,029	\$ 168,741	\$ 154,630	\$ -	\$ 86,957	\$ 132,059	\$ -	\$ 666,971
-	-	-	-	-	-	-	38,373
-	-	-	-	-	-	-	35,000
-	-	-	-	-	-	-	12,774
<u>\$ 43,029</u>	<u>\$ 168,741</u>	<u>\$ 154,630</u>	<u>\$ -</u>	<u>\$ 86,957</u>	<u>\$ 132,059</u>	<u>\$ -</u>	<u>\$ 753,118</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,659
-	-	-	-	-	-	-	13,048
-	-	-	-	-	-	-	15,707
43,029	168,741	154,630	-	86,957	132,059	-	585,416
-	-	-	-	-	-	-	12,774
-	-	-	-	-	-	-	13,665
-	-	-	-	-	-	-	125,556
<u>43,029</u>	<u>168,741</u>	<u>154,630</u>	<u>-</u>	<u>86,957</u>	<u>132,059</u>	<u>-</u>	<u>737,411</u>
<u>\$ 43,029</u>	<u>\$ 168,741</u>	<u>\$ 154,630</u>	<u>\$ -</u>	<u>\$ 86,957</u>	<u>\$ 132,059</u>	<u>\$ -</u>	<u>\$ 753,118</u>

**LAKEVIEW COMMUNITY SCHOOLS**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2005**

	<u>Special Revenue</u>		
	<u>Athletics</u>	<u>Food Service</u>	<u>Preschool</u>
<b>Revenue</b>			
Local sources	\$ 94,688	\$ 281,211	\$ -
State sources	-	41,344	203,659
Federal sources	-	340,627	-
Total revenue	<u>94,688</u>	<u>663,182</u>	<u>203,659</u>
<b>Expenditures</b>			
Current:			
Instruction	-	-	214,775
School administration	-	-	13,923
Food service	-	676,020	-
Athletic activities	292,835	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>292,835</u>	<u>676,020</u>	<u>228,698</u>
Revenue over (under) expenditures	(198,147)	(12,838)	(25,039)
<b>Other financing sources (uses)</b>			
Transfers in	<u>165,457</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	(32,690)	(12,838)	(25,039)
Fund balances, beginning of year	<u>33,280</u>	<u>97,417</u>	<u>91,865</u>
<b>Fund balances, end of year</b>	<u>\$ 590</u>	<u>\$ 84,579</u>	<u>\$ 66,826</u>

Debt Service Funds							
1996 Debt	1998 Debt	1999 Debt	Durant Debt	2001 Refinancing	2001 Voting	Capital Projects	Total
\$ 352,344	\$ 319,689	\$ 269,481	\$ -	\$ 342,130	\$ 403,063	\$ 278	\$ 2,062,884
-	-	-	-	-	-	-	245,003
-	-	-	-	-	-	-	340,627
352,344	319,689	269,481	-	342,130	403,063	278	2,648,514
-	-	-	-	-	-	-	214,775
-	-	-	-	-	-	-	13,923
-	-	-	-	-	-	-	676,020
-	-	-	-	-	-	-	292,835
-	-	-	-	-	-	69,907	69,907
300,000	20,000	25,000	-	240,000	180,000	-	765,000
65,950	280,598	234,736	-	113,155	217,819	-	912,258
365,950	300,598	259,736	-	353,155	397,819	69,907	2,944,718
(13,606)	19,091	9,745	-	(11,025)	5,244	(69,629)	(296,204)
-	-	-	-	-	-	-	165,457
(13,606)	19,091	9,745	-	(11,025)	5,244	(69,629)	(130,747)
56,635	149,650	144,885	-	97,982	126,815	69,629	868,158
\$ 43,029	\$ 168,741	\$ 154,630	\$ -	\$ 86,957	\$ 132,059	\$ -	\$ 737,411

**LAKEVIEW COMMUNITY SCHOOLS**  
**Athletics Fund**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2005**

	<b>Budget</b>			<b>Variance -</b>
	<b>Original</b>	<b>Amended</b>	<b>Actual</b>	<b>Positive</b>
				<b>(Negative)</b>
<b>Revenues</b>				
Local sources				
Gate receipts	\$ 52,200	\$ 68,308	\$ 71,210	\$ 2,902
Other	2,300	23,710	23,478	(232)
Total revenues	54,500	92,018	94,688	2,670
<b>Expenditures</b>				
Supporting services	219,956	290,245	292,835	(2,590)
Revenue over (under) expenditures	(165,456)	(198,227)	(198,147)	80
<b>Other financing sources</b>				
Transfers in	165,457	165,457	165,457	-
Net changes in fund balance	1	(32,770)	(32,690)	80
Fund balance, beginning of year	33,280	33,280	33,280	-
<b>Fund balance, end of year</b>	<b>\$ 33,281</b>	<b>\$ 510</b>	<b>\$ 590</b>	<b>\$ 80</b>

**LAKEVIEW COMMUNITY SCHOOLS**  
**Food Service Fund**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2005**

	<b>Budget</b>			<b>Variance -</b>
	<b>Original</b>	<b>Amended</b>	<b>Actual</b>	<b>Positive</b>
				<b>(Negative)</b>
<b>Revenue</b>				
Local sources				
Lunch sales	\$ 273,000	\$ 283,233	\$ 280,325	\$ (2,908)
Other	1,000	1,020	886	(134)
Total local sources	274,000	284,253	281,211	(3,042)
State sources				
State aid	38,400	43,423	41,344	(2,079)
Federal sources				
Federal aid received through the State	240,000	262,377	298,777	36,400
U.S.D.A. Donated Commodities	19,000	38,532	41,850	3,318
Total federal sources	259,000	300,909	340,627	39,718
Total revenue	571,400	628,585	663,182	34,597
<b>Expenditures</b>				
Supporting services	591,810	666,706	676,020	(9,314)
Net changes in fund balance	(20,410)	(38,121)	(12,838)	25,283
Fund balance, beginning of year	97,417	97,417	97,417	-
<b>Fund balance, end of year</b>	<b>\$ 77,007</b>	<b>\$ 59,296</b>	<b>\$ 84,579</b>	<b>\$ 25,283</b>

**LAKEVIEW COMMUNITY SCHOOLS**  
**Preschool Fund**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2005**

	<b>Budget</b>			<b>Variance -</b>
	<b>Original</b>	<b>Amended</b>	<b>Actual</b>	<b>Positive</b>
				<b>(Negative)</b>
<b>Revenue</b>				
State sources				
Grants	\$ 25,675	\$ 15,500	\$ 14,695	\$ (805)
State aid	168,300	188,100	188,100	-
Other	100	750	864	114
Total state sources	194,075	204,350	203,659	(691)
 Total revenue	 194,075	 204,350	 203,659	 (691)
<b>Expenditures</b>				
Instruction:				
Early education	178,370	214,897	214,775	122
School Administration				
Other services	15,705	15,730	13,923	1,807
Total expenditures	194,075	230,627	228,698	1,929
 Net changes in fund balance	 -	 (26,277)	 (25,039)	 1,238
Fund balance, beginning of year	91,865	91,865	91,865	-
<b>Fund balance, end of year</b>	<b>\$ 91,865</b>	<b>\$ 65,588</b>	<b>\$ 66,826</b>	<b>\$ 1,238</b>

## **AGENCY FUNDS**



**LAKEVIEW COMMUNITY SCHOOLS**  
**Combining Balance Sheet**  
**Agency Funds**  
**June 30, 2005**

	<u>Student Activities</u>	<u>Payroll Fund</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 97,036	\$ 148,862	\$ 245,898
<b>Total Assets</b>	<b><u>\$ 97,036</u></b>	<b><u>\$ 148,862</u></b>	<b><u>\$ 245,898</u></b>
<b>Liabilities</b>			
Due to student groups	\$ 97,036	\$ -	\$ 97,036
Withholdings payable	<u>-</u>	<u>148,862</u>	<u>148,862</u>
<b>Total Liabilities</b>	<b><u>\$ 97,036</u></b>	<b><u>\$ 148,862</u></b>	<b><u>\$ 245,898</u></b>

**LAKEVIEW COMMUNITY SCHOOLS**

**LAKEVIEW, MICHIGAN**

**SINGLE AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2005**

**LAKEVIEW COMMUNITY SCHOOLS  
SINGLE AUDIT REPORT**

**TABLE OF CONTENTS**

---

	<b><u>PAGE</u></b>
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	3-4
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	7-8



# REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

July 29, 2005

Board of Education  
Lakeview Community Schools  
Lakeview, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lakeview Community Schools, Lakeview, Michigan, as of and for the year ended June 30, 2005, and have issued our report thereon dated July 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered Lakeview Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Lakeview Community School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of Lakeview Community Schools in a separate letter dated July 29, 2005.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Lakeview Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Rehmann Johnson*



# REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

July 29, 2005

Board of Education  
Lakeview Community Schools  
Lakeview, Michigan

***Compliance***

We have audited the compliance of Lakeview Community Schools, Lakeview, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Lakeview Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lakeview Community Schools' management. Our responsibility is to express an opinion on Lakeview Community Schools compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lakeview Community Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lakeview Community Schools' compliance with those requirements.

In our opinion, Lakeview Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

***Internal Control Over Compliance***

The management of Lakeview Community Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lakeview Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Lakeview Community Schools, Michigan's, ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulation, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

#### ***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lakeview Community Schools as of and for the year ended June 30, 2005 and have issued our report thereon dated July 29, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Lehmann Johnson".

**LAKEVIEW COMMUNITY SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE JULY 1, 2004	CURRENT YEAR CASH RECEIVED	EXPENDITURES (MEMO ONLY) YEAR ENDED PRIOR YEAR(S) JUNE 30, 2005		ACCRUED (DEFERRED) REVENUE JUNE 30, 2005
<i>Passed through Michigan Department of Education</i>								
<b>U.S. Department of Agriculture</b>								
Child Nutrition Cluster:								
National School Lunch - breakfast	10.553	041970	\$ 7,257	\$ -	\$ 7,257	\$ -	\$ 7,257	\$ -
National School Lunch - breakfast	10.553	051970	56,878	-	56,878	-	56,878	-
							64,135	
National S/L Section 4 All Lunches	10.555	041950	5,728	-	5,728	-	5,728	-
National S/L Section 4 All Lunches	10.555	051950	32,353	-	32,353	-	32,353	-
National S/L Section 11 Free & Reduced	10.555	041960	28,482	-	28,482	-	28,482	-
National S/L Section 11 Free & Reduced	10.555	051960	168,079	-	168,079	-	168,079	-
							234,642	
Total Child Nutrition Cluster							298,777	
Entitlement Commodities	10.550		29,099	-	33,867	-	33,867	-
Bonus Commodities	10.550		7,983	-	7,983	-	7,983	-
							41,850	
<b>Total U.S. Department of Agriculture</b>							340,627	
<b>U.S. Department of Education</b>								
Title 1, Part A	84.010	031530-0304	97,689	36,311	36,311	97,689	-	-
Title 1, Part A	84.010	041530-0304	319,360	106,822	106,822	319,360	-	-
Title 1, Part A	84.010	041530-0405	85,158	-	42,895	-	85,158	42,263
Title 1, Part A	84.010	051530-0405	366,307		230,761		359,084	128,323
							444,242	
Title V	84.298	030250-0304	2,979	643	643	2,979	-	-
Title V	84.298	040250-0304	6,556	2,655	2,655	6,556	-	-
Title V	84.298	050250-0405	5,623		3,759		5,623	1,864
							5,623	
Technology Literacy Challenge Grant	84.318	044290-0304	9,798	6,765	6,765	9,798	-	-
Technology Literacy Challenge Grant	84.318	054290-0405	9,309	-	7,314	-	9,309	1,995
							9,309	
Improving Teacher Quality	84.367	040520-0304	119,203	66,292	66,292	119,203	-	-
Improving Teacher Quality	84.367	050520-0405	119,855	-	75,003	-	109,396	34,393
<b>Total U.S. Department of Education</b>							568,570	
<i>Total Passed through Michigan Department of Education</i>							909,197	
<i>Passed through Kent Intermediate School District</i>								
<b>U.S. Department of Health and Human Services</b>								
Safe and Drug Free Schools	84.186		9,349	-	9,349	-	9,349	-
<i>Passed through Montcalm Intermediate School District</i>								
<b>U.S. Department of Homeland Security</b>								
Homeland Security Training Exercise	97.004		1,956	-	1,956	-	1,956	-
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				\$ 219,488	\$ 931,152	\$ 920,502		\$ 208,838



**LAKEVIEW COMMUNITY SCHOOLS  
SINGLE AUDIT REPORT**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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**NOTE 1 – RECEIPTS AND REVENUE**

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule of Expenditures of Federal Awards has been arranged to provide information on both actual cash received and the resultant revenue recognized. Accordingly, the effects of accruals of accounts receivable, deferred revenue and accounts payable items at both the beginning and end of the fiscal year have been reported. The Schedule also reflects the inventory of USDA donated commodities received by the School District. Actual cash received as reported on the Grant Section Auditors' Report (7120) exceeds the amount displayed on Schedule of Federal Awards by the amount paid by the State before year end which was received by the District on July 1, 2005.

**NOTE 2 – GRANT EXPENDITURES**

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grants Section Auditors report (7120) reconcile with this schedule after consideration of Note 1 described above.

Expenditures are reported on the Schedule of Expenditures of Federal Awards for all active awards. Accordingly, the Schedule presents expenditures for the current year grant, which remains active beyond the end of the fiscal year because of the accounts receivable, deferred revenue, or accounts payable items.

# LAKEVIEW COMMUNITY SCHOOLS, MICHIGAN

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2005

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### SECTION I – SUMMARY OF AUDITORS' RESULTS

#### *Financial Statements*

Type of auditor's report issued:

*Unqualified on basic financial statements*

Internal controls over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ yes        x   no

Reportable condition(s) identified not

considered to be material weaknesses?

  x   yes      \_\_\_\_\_ none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ yes        x   no

#### *Federal Awards*

Internal Control over major programs:

Material weakness(es) identified?

\_\_\_\_\_ yes        x   no

Reportable condition(s) identified not

considered to be material weaknesses?

  x   yes      \_\_\_\_\_ none reported

Type of auditor's report issued on compliance for major programs:

*Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?

\_\_\_\_\_ yes        x   no

#### *Identification of Major Programs*

*CFDA Number(s)*

*Name of Federal Program or Cluster*

84.010

Title I

Dollar threshold used to distinguish between Type A and Type B programs:

  \$ 300,000  

Auditee qualified as low-risk auditee?

  x   yes      \_\_\_\_\_ no

**LAKEVIEW COMMUNITY SCHOOLS, MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2005**

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**Finding 2005-1**

Internal Control  
Finding:

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

Effect:

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of accounting duties substantially increases control over errors without duplication of effort.

Recommendation/Comment:

The School District's separation of duties within the Business Office is a recurring finding due to the small number of staff employed. The cost /benefit of accomplishing the desired segregation of duties has been considered. The School District's Business Office, consisting of two employees, attempts to separate the duties of depositing cash and/or signing checks with that of preparing the bank reconciliation and posting transactions to the general ledger. The Superintendent is extensively involved in the purchasing cycle and extensive review of transactions is completed by the Board of Education.

***Summary Schedule of Prior Audit Findings***

**Finding # 2004-1**

Repeated as current year finding 2005-1



# REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

July 29, 2005

Board of Education  
Lakeview Community Schools  
123 Fifth Street  
Lakeview, MI 48850

Board of Education:

In planning and performing our audit of the financial statements of Lakeview Community Schools (District) for the year ended June 30, 2005, we considered the District's internal controls to determine our auditing procedures for the purpose of expressing an opinion of the financial statements and not to provide assurance on the internal controls.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated July 29, 2005, on the financial statements of the Lakeview Community Schools. This letter does not affect our report dated July 29, 2005 on the financial statements of Lakeview Community Schools.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, perform any additional study of these matters, or to assist management in implementing the recommendations. Our comments are summarized as follows:

## CROSS-TRAINING OF EMPLOYEES

We noted during our testing that staff has not been trained to perform the payroll duties of the accounts payable clerk if the employee were to be unavailable to perform them themselves. While the clerk is required to take vacation, the employee never does so on a pay week due to no one else having sufficient knowledge of the procedure. We recommend that the District cross-train or hire additional part-time staff to provide a backup for the payroll function.

## DISTRICT CREDIT CARD POLICIES AND PROCEDURES

During our audit, we noted that the district implemented a credit card policy during the year. We noted the card policy established by the District was not consistently being followed. In review of several credit card payments and personnel-provided support, we noted that often times, employees are not submitting receipts to Central Office in a timely manner. It has become a monthly struggle for the accounts payable clerk to seek out employees in search of their supporting receipts. In some situations, an original receipt has not been forwarded on to the proper authority. We recommend and discussed with management that the District reiterate its credit card policy to the approved cardholders, consistently enforce this policy, and cancel credit cards as necessary. During discussion with management, we noted that they have discussed changing policies and procedures to improve the processes associated with credit cards.

## BANK ACCOUNTS IN THE DISTRICT'S NAME

In confirming balances with local depositories, we became aware of several organizations that are using the District's name on their account but whose funds are not listed in the District's general ledger. We also noted that the Lakeview Education Association holds funds in the name of Lakeview Community Schools in a Michigan Liquid Asset Fund. These independently managed funds for graduating classes and committees should be notified that they must no longer use the School's name for their account. This is a precaution to avoid association with accounts that the District does not oversee.

## CAPITAL ASSET DISPOSALS

One of our procedures was to verify that the buses recorded in the capital asset detail (maintained externally by third party) were consistent with the capital assets on hand. We discovered that several items on the capital asset listing had been disposed of years earlier and were never removed from the detail. While these items were all fully depreciated and therefore had no effect on the District's net asset balance, it is important to maintain accurate records and schedules. We recommend that periodically, capital assets in possession of the District be reconciled to the detail listing in order to identify unrecorded additions and disposals. The third party should be notified of these changes and District personnel should ensure that changes are accurately made by reviewing the third party-produced schedules.

We would like to thank the staff of the business services department for their assistance and cooperation during the audit. We look forward to working with you in the future.

This information is intended solely for the use of the Board Members and Management of Lakeview Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

